

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-APON PROCEDURES

To [Motion Picture Production Company Name] and the Massachusetts Department of Revenue:

We have performed the procedures enumerated in the attached Exhibit A below, which were agreed to by the [Insert name of Motion Picture Production Company] and the Massachusetts Department of Revenue, solely to assist you in evaluating the completeness and accuracy of the accompanying Detailed Cost Report of Qualified Motion Picture Expenses for the Motion Picture [Insert Production Title]. We followed these procedures to demonstrate compliance with the criteria specified by the Massachusetts Department of Revenue for qualifying Motion Picture Qualified Expenses of [Motion Picture Production Company] for the Motion Picture [Insert Production Title] for the Qualifying Period beginning [Date] and ending [Date]. [Motion Picture Production Company]'s management is responsible for maintaining records of the information contained in the Detailed Cost Report of Qualified Motion Picture Expenses for the Motion Picture [Insert Production Title]. This agreed-upon procedures (AUP) engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached Exhibit A below either for the purpose for which this report has been requested or for any other purpose.

The summary of procedures and associated findings are as follows:

See Exhibit A below.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the completeness and accuracy of the accompanying Detailed Cost Report of Qualified Motion Picture Expenses for the Motion Picture [Insert Production Title]. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of [Motion Picture Production Company] and the Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

[Firm's Signature]  
[Location of Firm (City, State)]  
[Report Date]



**Exhibit A**  
**SUMMARY OF PROCEDURES  
AND ASSOCIATED FINDINGS**

All exceptions to the following are listed as a finding under the respective procedure:

**Entity Qualification Procedures**

- 1) Obtain from the “motion picture production company” (“MPPC”), documentation (such as, production reports, call sheets, trailers, etc.) supporting that the making of a “motion picture” (“MP”) requirement has been met in accordance with the requirement under Massachusetts Department of Revenue Technical Information Release 07-15 Sec 2 (A) (hereafter referred to as TIR 07-15).
- 2) Obtain a schedule from the MPPC listing any company or person having a greater than 25% ownership interest, affiliation with or controlling interest in the MPPC. -Compare this schedule to the legal, organizational or corporate documents of the MPPC and/or its owners, affiliates or controllers (such as stockholders agreements, limited liability company operating agreements, corporation agreements, etc.) for completeness. Document owners in the report and obtain a schedule from the MPPC listing payments between the MPPC and such owners.
- 3) Review the financial records to determine that the MPPC has incurred a minimum of \$50,000 of Massachusetts production expenses in a consecutive twelve-month period.
- 4) By inquiry of the MPPC determine the qualification period of the MP and document findings. Determine that the qualification period is in compliance with TIR 07-15 Sec 2 (A).
- 5) Obtain documentation of all production expenses for the MP and total principal photography days for the MP during the qualification period.
- 6) Obtain a schedule or analysis of Massachusetts production expenses for the MP during the qualification period.
- 7) Obtain a schedule or analysis of total principal photography days filmed in Massachusetts during the qualification period.
- 8) Confirm that Massachusetts production expenses exceeded 50% of all production costs or that 50% of total principal photography days were filmed in Massachusetts during the qualification period.

## **Cost Review Procedures**

Determine scope for performing the procedures according to the following guidelines:

- a. Procedures 1, 2, 3, 4 and 5 below for qualifying aggregate payroll should be performed for 95% of all costs.
  - b. Procedures 6 and 7 below for Massachusetts production expenses other than qualified aggregate payroll should be performed for all individual expenses exceeding 5% of Massachusetts production expenses.
  - c. Procedures 6 and 7 below should be performed on all remaining Massachusetts production expense balances utilizing a random statistical sample of expense items. For purposes of establishing the sample size, the tolerable misstatement should be no more than 5% of the total Massachusetts production expenses, utilizing a low risk of material misstatement.
- 1) Obtain from the MPPC a schedule of qualified aggregate payroll which they claim eligibility for the payroll credit.
  - 2) Trace qualified aggregate payroll costs for each employee to the final payroll register for the qualification period and determine that Massachusetts withholding is made. Confirm that the withholding reports are filed with Massachusetts.
  - 3) Confirm that the qualified aggregate payroll schedule excludes 100% of payroll costs of employees receiving more than \$1,000,000.
  - 4) Obtain a representation from the MPPC that the qualified aggregate payroll schedule excludes profit participation amounts paid to any recipient participating in the profits from the MP.
  - 5) Obtain documentation from the MPPC supporting that the Massachusetts withholding rules have been followed by the loan out companies (see DOR Information on Withholding for Film Subcontractors).
  - 6) Through inspection of purchase orders, invoices and cancelled checks, determine whether the Massachusetts production expenses were “clearly and demonstrably” incurred in Massachusetts. If purchase orders, invoices and cancelled checks are not available, obtain other suitable documentation (such as contracts, letters, etc). that supports such expenses meet the Massachusetts production expenses definition.
  - 7) Confirm that Massachusetts production expenses claim for capital expenditures, rents and expenditures for partial use within the subject MP are in accordance with TIR 07-15 Sec 2B (3).
  - 8) If “significant differences” are found from the above cost review procedures, the accounting records of the MPCC should be reviewed and corrected by the MPPC. The above procedures should then be completed again on the revised accounting records. The revised accounting records should have a higher level of testing with specific emphasis on the parts of the records that were revised.

273307/jmw